Peyto Oils Ltd.

ANNUAL REPORT
Year Ending May 31st, 1973

PHOTO BY DON HARMON, BANFF

Peyto Oils Ltd. and Subsidiaries

Peyto Explorations Inc.	100%
Polaris Oil Limited	100%
Polaris Oil Inc.	100%
Polaris Oil (U.K.) Ltd.	100%
Giant Reef Petroleums Limited	65%
Not included in consolidation:	
Enjay Holdings Limited	(40%)
Ensign Oil of Spain Ltd.	(50%)

HEAD OFFICE:

335 Examiner Bldg.,
CALGARY, Alberta T2P 1W3
Area Code 403 261-5042 - 264-7186

OFFICERS:

WILLIAM WOLODARSKY — *President*
R. T. VANDERHAM — *Vice President*
A. N. McCRUDEN — *Secretary*

DIRECTORS:

W. WOLODARSKY
R. T. VANDERHAM
A. N. McCRUDEN
CARMEN W. BYLER
J. A. DOWNING

BANKERS:

CANADIAN IMPERIAL
BANK OF COMMERCE
628 - 8th Ave. S.W.
CALGARY, Alberta T2P 2C9

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
522 - 8th Ave. S.W.
CALGARY, Alberta T2P 1E7

15 King St. West
TORONTO, Ontario

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.,
309 - 8th Avenue S.W.
CALGARY, Alberta T2P 1C6

STOCK LISTING:

TORONTO STOCK EXCHANGE

OUR COVER:

"PEYTO LAKE AT SUNRISE" — located 27 miles north of Lake Louise on the Banff-Jasper Highway in Banff National Park. The pale blue color of the lake is a result of the silt carried in the outwash of Peyto Glacier. ALBERTA, Canada.

Five Year Financial & Operating Review

	1969	1970	1971	1972	1973
Total Revenue	$ 39,000	$ 144,000	$ 305,000	$ 564,000	$ 580,951
Cash Flow	18,000	(24,000)	93,000	204,000	89,726
Cash Flow/Share	2¢	(1¢)	5¢	10¢	4¢
Depreciation/Depletion	4,000	4,000	88,000	164,000	159,217
Net Income (loss)	17,000	(11,000)	(33,000)	(35,000)	(249,000)
Net Income (loss)/share	2¢	(1¢)	(2¢)	(2¢)	(11¢)
Total Assets	306,000	2,242,000	2,940,000	3,224,000	4,751,000
Working Capital	208,000	738,000	187,000	384,000	634,362
Long-term Debt	—	—	626,000	629,000	632,000
Shares Outstanding	880,000	1,753,293	1,753,293	1,953,293	2,431,383
Shareholder's Equity	294,000	1,944,000	1,912,000	2,277,000	3,622,000

OIL & GAS LANDS

		1972	1973
Canada — acres	gross	395,030 gross	1,422,957
	net	114,421 net	393,475
Foreign — acres	gross	2,985,032 gross	4,912,921
	net	400,981 net	390,500

	1969	1970	1971	1972	1973
Gross wells drilled	10	11	7	14	23
Oil/Gas	6	1	2	5	11
Dry	4	10	5	9	12
Number of Employees	3	3	3	4	5

DEAR SHAREHOLDER:

Financially your company increased its gross income to $580,951, a slight increase over last year. Income from oil and gas decreased 6% to $449,475 due primarily to a decline from income at Quirk Creek caused by temporary plant shut downs and interruptions.

Oil and gas acreage holdings increased sharply this year due to the acquisition of Polaris Oil Limited and the addition of foreign holdings.

This year's overall financial results, especially general and administration costs, cash flow and net loss were adversely affected by the consolidation of Polaris Oil Limited with your company. Polaris Oil Limited was acquired in December 1972.

However, the reserves of the company were substantially increased by unprecedented exploration discoveries during the past year at:

1) Ghost	gas	New pool - wildcat
2) Quirk Creek (Giant Reef)	gas	New pool - wildcat
3) Snipe Lake	gas	New pool - extension
4) Drumheller	gas	New pool - wildcat
5) Swan Hills	oil	Pool - extension
6) North Weyburn	oil	New pool - wildcat

Reserve estimates for these new discoveries must await development drilling already in progress. Increased revenues from some of these discoveries will be reflected in next year's statements, while others, especially those in the deep Foothills area will take several years to be reflected as income.
It is for these reasons that your directors view the company's recent discoveries, together with its current activities in the North Sea, Tunisia and other areas as important factors towards continued and rapid growth in future years.

During the period under review Peyto participated in the drilling of 23 wells resulting in 8 oilwells, 3 gaswells and 12 dry holes.

It may be noted that the two major discoveries at Ghost and Quirk Creek, in the Foothills of Alberta, were made at no cost to the company.

EXPLORATION

Western Canada

Phillips Petroleum et al Ghost 4-36-27-8-W5 (see map on page 5), discovered a major accumulation of natural gas in the Mississippian-Turner Valley formation. The well is located in 2560 acres of pooled lands in which Peyto has a 5% interest; in addition Peyto holds a 10% interest in 49,000 acres adjoining this new discovery. Successful follow-up wells have been completed in 6-25-26-8-W5 and in 4-1-27-8-W5. Although Peyto does not have a direct interest in these latter two wells, their proximity to the company's leases is proving the existence of gas and condensate reserves on Peyto's lands located on the same seismically defined structure. Present drilling by Aquitaine in 10-33-27-8-W5 could prove significant to Peyto's interests in Township 27-8-W5.

Peyto's subsidiary, Giant Reef Petroleums Limited, participated for its 5% interest in the Husky et al Quirk Creek 5-22-21-5-W5 discovery well. This well, a 13,965 foot test, encountered gas in the deeper Mississippian and Devonian horizons. Production testing of this well is currently underway. Drillstem tests of the second Mississippian plate at 9100' recovered gas at the rate of 6 MMcf/day with considerable condensates. Sulphur content was below 9%. The Devonian, Wabamun and D-3 objectives in this well tested sour gas on drillstem tests. Since the Quirk Creek gas plant has approximately 20 million cubic feet of excess capacity it is expected that this well will be tied into the plant and placed on production at a very early date.

A second deep test, Husky et al Quirk Creek 11-27-20-4-W5 located 8 miles Southwest of the 5-22 discovery, is already drilling towards its 11,500 objective to test a separate and deep Mississippian structure.

The 5-22 and 11-27 wells and a possible third well are being drilled and completed at no cost to Giant Reef.

In East Central Alberta Peyto (12½%) drilled and completed a Glauconitic gas well in the Drumheller area. A follow up well to this discovery was unsuccessful. Further evaluation is planned.

At Swan Hills your company participated for 50% in the drilling of a Beaverhill Lake oilwell. Due to terrain conditions production from this well has not yet commenced but is expected to go on production shortly. The well was initially tested at a rate of 330 B.O.P.D.

At Snipe Lake (Peyto 10%) a dual zone gas well in 6-24-72-18-W5 was completed by Michigan Wisconsin et al on a 15,360 acre reservation. Another well in 6-32-72-18-W5 was unsuccessful. Further development this year is scheduled.

In the Hume field in Saskatchewan your company now has completed 6 oilwells and drilled 3 unsuccessful wells. Your company's interest in these wells is held through its Peyto Oil & Gas Program 1972 drilling fund.

In the North Weyburn area a successful new pool, wildcat resulted in a Midale oilwell. A half mile offset was also completed as an oilwell. Your company has a 50% interest in these two wells. Exploration drilling in this area is continuing.

International

The ever increasing rate of drilling and major discoveries in the U.K. sector of the North Sea continues to be of great importance to your company.

The map on pages 6-7 highlights the recent activities surrounding the company's blocks 211/2 (40%) and 3/7 (10%) as well as the blocks held by Sea Search Ltd. Peyto to date has invested $570,000 to purchase 3.9% (223,000 shares) of Sea Search Ltd., a private U.K. company.

It appears from information available to date that the fields thus far discovered in the Northern Portion of the North Sea are of major size; reliable estimates suggest 1 billion barrels of recoverable oil at both the Brent and Thistle fields. At present several wells are drilling which effect your company's holdings in this area. Of major significance is the BP-Ranger well, drilling in block 3/8, adjoining our block 3/7. Drilling plans have been announced by Burmah Oil Company for block 3/3 diagonally offsetting block 3/7.

The initial seismic work over block 211/2 has been completed and results are most promising. Additional data is being acquired to complete this work. Current drilling and recent discoveries in 211/29, 211/23, 211/18 and 210/15 are causing your management to view block 211/2 as one of the company's most attractive prospects. Peyto's interest is 40%.

Sea Search Ltd. is presently the subject of two take-over bids. Apart from a considerable appreciation in share value, these take-over bids, if successful, will result in a market quotation on the London Stock Exchange for this investment.

Although overshadowed by North Sea activities, Peyto's 6.66% interest in the 1.5 million acre Tunisia concession has been considerably enhanced by the recently completed seismic surveys, now comprising 1700 miles. Several drillable prospects have been found and drilling is anticipated in the latter part of 1973.

A 5% interest was acquired in a 1,574,000 acre concession in offshore Gambia on Africa's West Coast. A seismic survey has been completed and results will be available shortly.

In Guyana, the seismic results covering Peyto's (12½% interest), 1.3 million acres concession are being re-evaluated using new velocity differential techniques to determine the presence of a possible stratigraphic sand trap similar to those occurring in Venezuela A multi-well drilling program has been announced by others on adjoining concessions.

Our Black Sea concession in Turkey was terminated due to lack of scientific encouragement.

In Mediterranean Turkey our Antalya concessions were farmed out for additional seismic work to Canadian Superior Oil Ltd. The farmee must shortly decide to elect to drill a well and continue its option. Results of the seismic surveys, to date, have indicated a drillable, onshore structure and it is expected that a wildcat well will be drilled by the farmee.

During the year new concession negotiations were initiated and applications made in several countries, and these negotiations are continuing.

Mining

Interest in the company's 156 claims at Cache Creek - Maggie area of British Columbia is being maintained. The political climate in that Province mitigates against an agressive exploration program despite excellent results of previous exploration work. A drilling program is currently in progress.

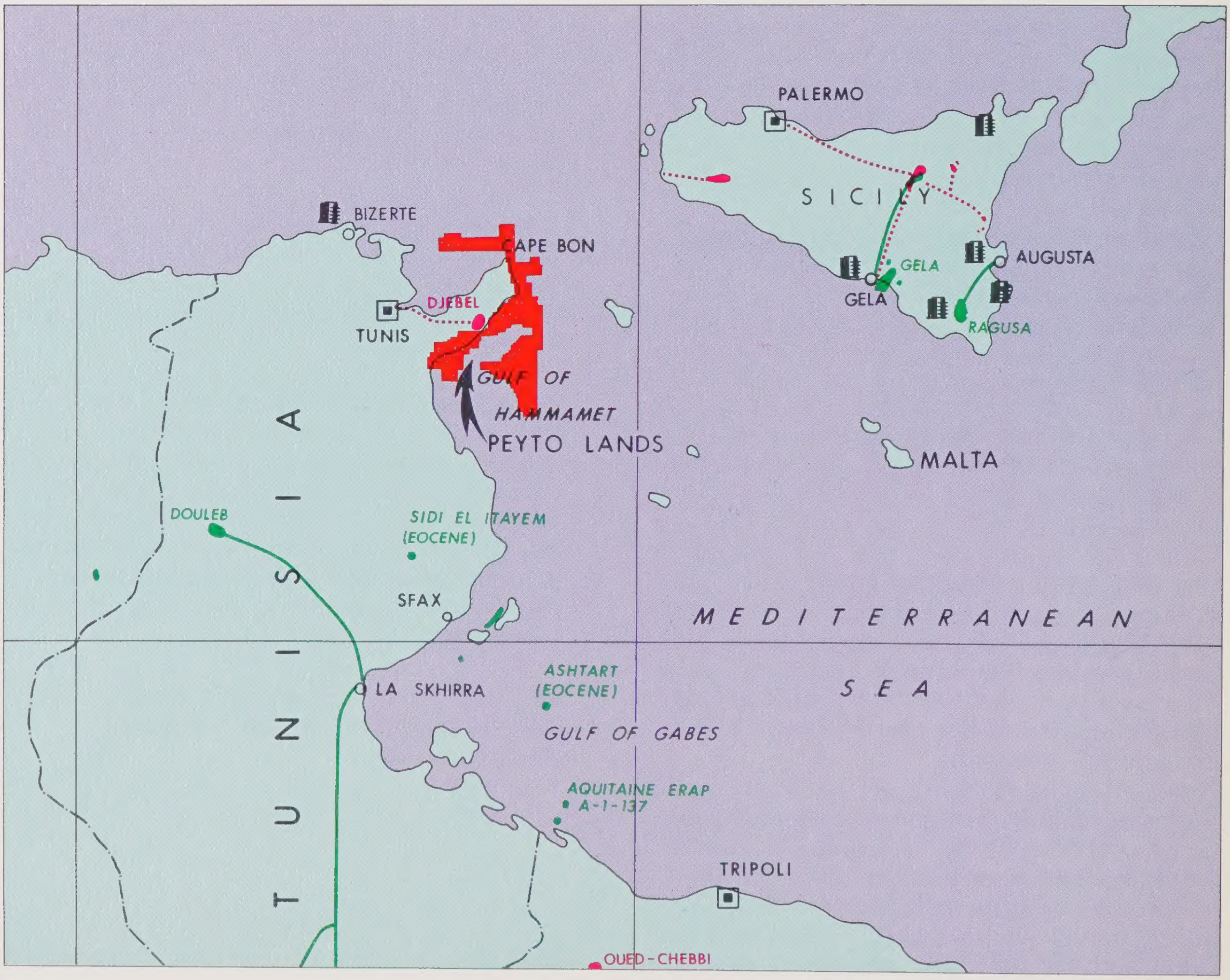
Increasing prices for oil and gas partially offset by increasing government royalties and the increased cost of doing business should enhance profit margins in the coming year. The company expects sizeable capital requirements in 1974 to finance development expenditures at Seebe Ghost, Quirk Creek and offshore exploration oversea. Although bank credit is available some equity financing is anticipated.

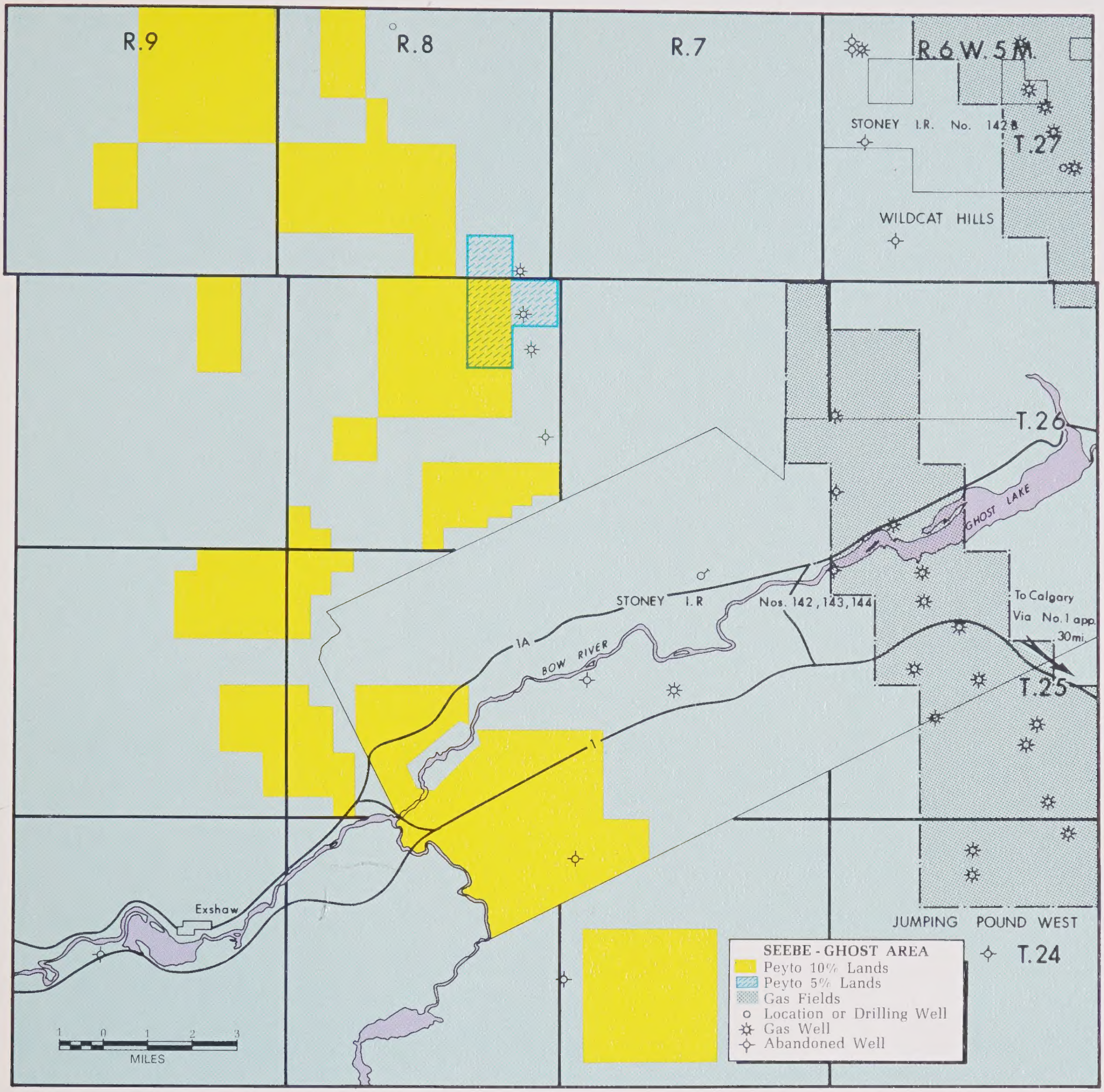
We are pleased to announce that Mr. John A. Downing, former President of Polaris Oil Limited and founder of several successful oil companies has joined your Board of Directors.

Mr. Ken Moore has joined the company as area exploration geologist.

On Behalf of the Board of Directors,
W. WOLODARSKY,
President.

September 21, 1973.





TUNISIA - GULF OF HAMMAMET

The concession shown contains 1,500,000 acres with Peyto holding a 6-2/3% working interest. A total of 1700 miles of offshore seismic has been completed. Offshore Tunisia is becoming a highly prospective area with substantial discoveries being recorded in the Gulf of Gabes and Sfax, offshore. A gas field exists at Djibel onshore, close to the prospect acreage.

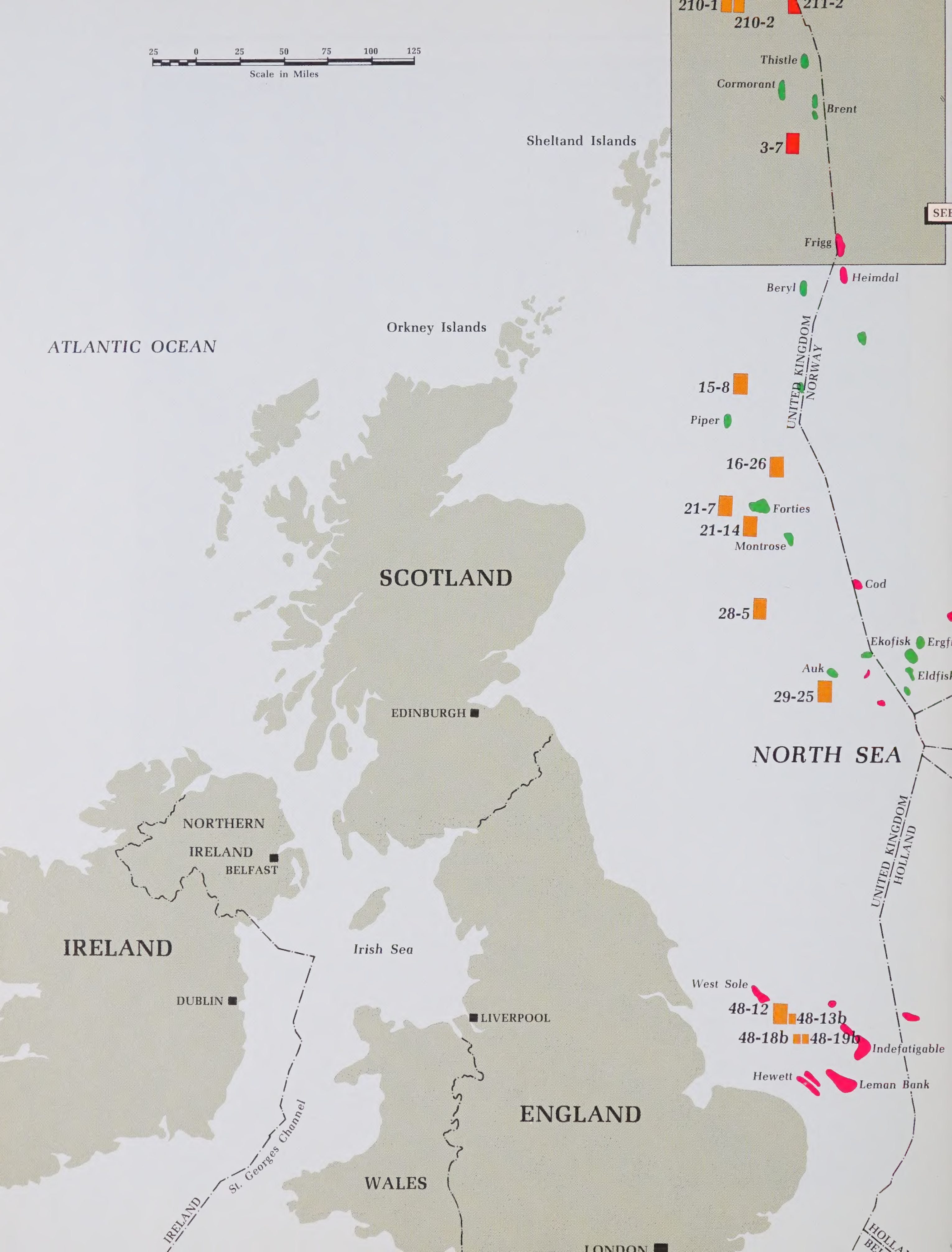
The initial testwell is tentatively planned for drilling at the end of 1973 to test several prospective formations down to 16,000 feet. The location is in ±370 feet of water.

SEEBEE - GHOST AREA

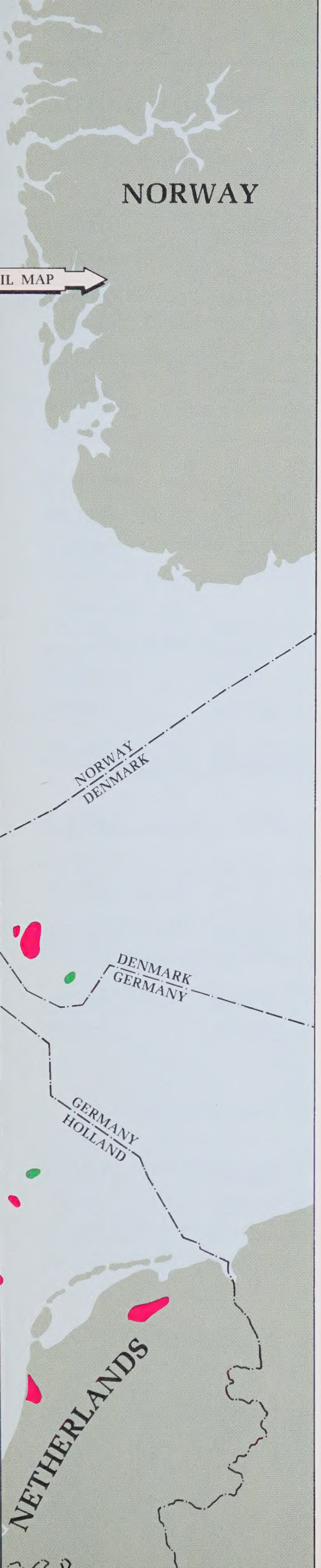
The map reflects the company's holdings at Seebe Ghost, and consists of ±49,000 acres of leases in which a 10% interest is held. Also shown are the pooled lands in which your company holds a 5% interest

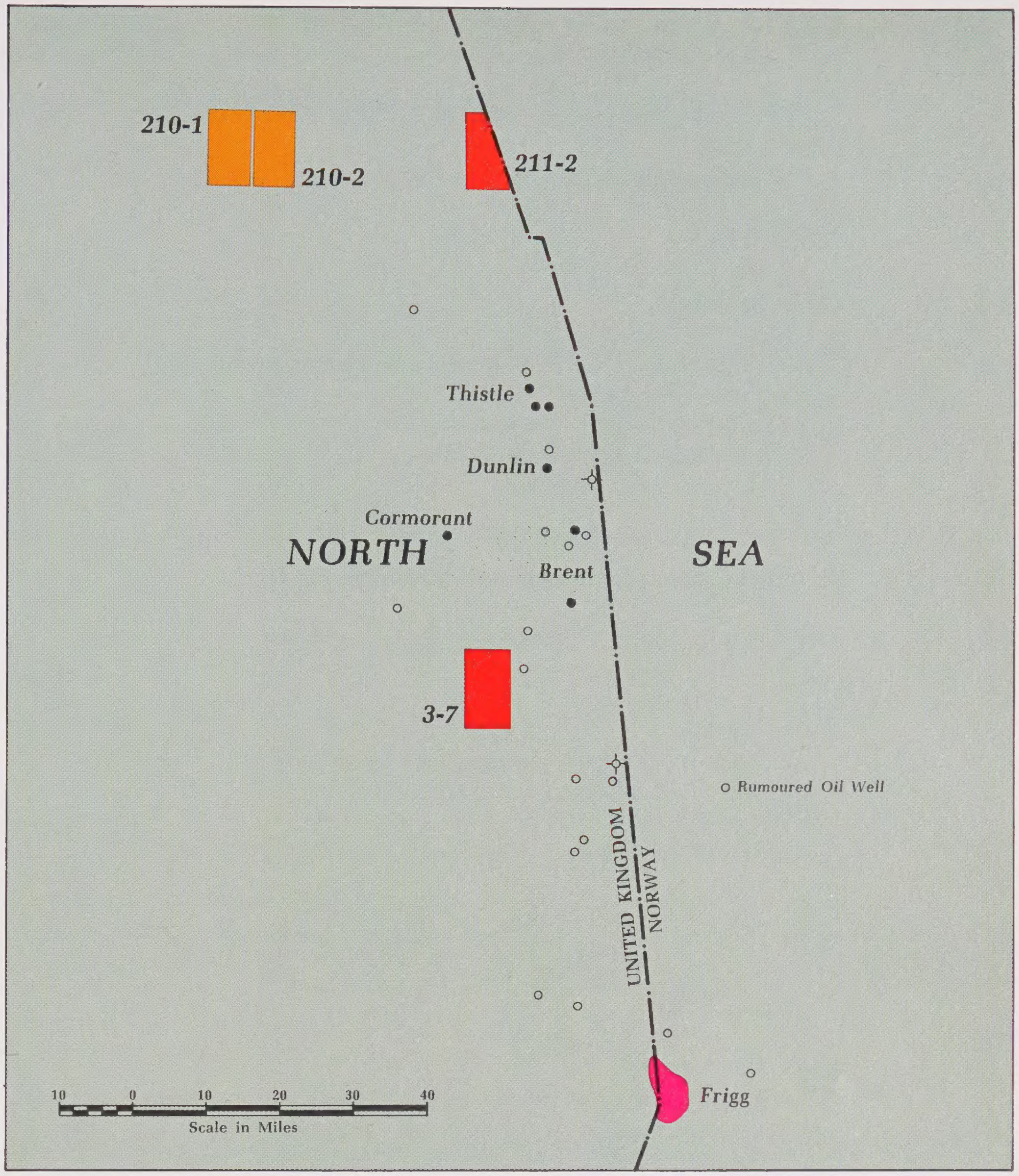
Three substantial gas wells have been completed to date.

In addition Aquitaine Company of Canada is presently drilling in 10-33-27-8-W5. The outcome of this well could be of significance to the company lands in the vicinity.



25 0 25 50 75 100 125
Scale in Miles
ATLANTIC OCEAN
Sheltand Islands
Orkney Islands
210-1
210-2
211-2
Thistle
Cormorant
Brent
3-7
Frigg
Heimdal
Beryl
UNITED KINGDOM
NORWAY
15-8
Piper
16-26
21-7
Forties
21-14
Montrose
Cod
28-5
Ekofisk
Auk
29-25
SCOTLAND
EDINBURGH
NORTH SEA
NORTHERN
IRELAND
BELFAST
UNITED KINGDOM
HOLLAND
IRELAND
Irish Sea
DUBLIN
LIVERPOOL
West Sole
48-12
48-13b
48-18b
48-19b
Indefatigable
Hewett
Leman Bank
ENGLAND
St. Georges Channel
WALES
IRELAND





NORTH SEA AREA

- Peyto et al Lands
- Sea Search Lands
- Oil Fields
- Gas Fields
- Location or Drilling Well
- Oil Well
- Gas Well
- Abandoned

Consolidated Balance Sheet

May 31, 1973
(with comparative figures for 1972)

ASSETS

	1973	1972
Current assets:		
Cash	$ 77,218	24,379
Deposit receipts, including accrued interest (Note 6)	752,659	416,140
Accounts receivable (Note 4)	105,895	92,055
Current portion of notes receivable	20,000	5,000
Prepaid expenses and deposits	12,989	451
Total current assets	968,761	538,025
Notes receivable from directors, net of current portion	—	20,000
Property, plant and equipment (Notes 2 and 4):		
Cost	3,743,694	2,756,844
Less accumulated depletion and depreciation	419,042	259,868
	3,324,652	2,496,976
Other assets:		
Investments, at cost less amounts written off (no quoted market value) (Note 3)	435,088	152,711
Refundable deposits	13,250	11,270
Incorporation costs	9,238	4,981
	457,576	168,962
	$4,750,989	3,223,963

LIABILITIES

	1973	1972
Current liabilities:		
Accounts payable and accrued liabilities	$ 121,845	54,195
Current portion of long-term debt (Note 4)	75,000	100,000
Due on purchase of investment (Note 3)	137,554	—
Total current liabilities	334,399	154,195
Long-term debt (Note 4)		
Bank loan, net of current portion	632,000	629,000
Minority interest in subsidiary company	162,135	163,953
Shareholders' equity:		
Capital stock (Note 5)		
Authorized:		
3,000,000 shares without nominal or par value		
Issued:		
2,431,383 shares (1972 — 1,953,293 shares)	4,009,510	2,376,025
Deficit	387,055	99,210
	3,622,455	2,276,815
Commitment and contingencies (Notes 3 and 6)		
	$4,750,989	3,223,963

Approved on behalf of the Board:

WILLIAM WOLODARSKY, Director

R. T. VANDERHAM, Director

See accompanying notes.

Consolidated Statement of Earnings and Deficit

Year ended May 31, 1973
(with comparative figures for 1972)

	1973	1972
Revenue:		
Oil and gas	$ 449,475	477,318
Geological and consulting fees	87,257	60,066
Interest earned	33,260	26,847
Other	10,959	—
	580,951	564,231
Expenses:		
Operating	213,802	193,763
Lease rentals on non-producing properties	30,089	10,743
General and administrative	200,675	102,978
Interest:		
Long-term	46,282	52,823
Other	377	—
	491,225	360,307
Cash flow from operations	89,726	203,924
Non-cash charges (credits):		
Depletion	83,424	97,695
Depreciation	75,793	66,143
Dry holes and abandonments	241,693	73,791
Write down of investments	3,046	1,999
Gain on sale of properties and investments	(62,608)	(28,875)
	341,348	210,753
Loss before the following	251,622	6,829
Minority interest in profit (loss) of subsidiary	(2,317)	28,369
Net loss	249,305	35,198
Deficit at beginning of year	99,210	64,012
Share issue expenses	38,540	—
Deficit at end of year	$ 387,055	99,210
Loss per share (Note 9)	$ 0.11	0.02

See accompanying notes.

Consolidated Statement of Source and Application of Funds

Year ended May 31, 1973
(with comparative figures for 1972)

	1973	1972
Source of funds:		
Cash flow from operations	$ 89,726	203,924
Decrease in notes receivable	20,000	5,000
Increase in long-term debt, net of current portion	3,000	3,000
Issue of capital stock	1,633,485	400,000
Sale of properties and investments	74,983	38,635
Other	2,382	—
Total funds provided	1,823,576	650,559
Application of funds:		
Property, plant and equipment	1,238,431	320,728
Increase in other assets:		
Investments	284,407	127,204
Other	11,666	5,697
Share issue expenses	38,540	—
Total funds applied	1,573,044	453,629
Increase in working capital	250,532	196,930
Working capital at beginning of year	383,830	186,900
Working capital at end of year	$ 634,362	383,830

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Principles of Consolidation:

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies and a 65% held subsidiary, Giant Reef Petroleums Limited.

Effective October 1, 1972 Peyto Oils Ltd. acquired all of the issued and outstanding shares of Polaris Oil Limited in exchange for 383,328 shares of the company having an ascribed value of $1,149,985. There was no excess of purchase price over underlying net book value at date of acquisition.

The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book value, at date of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit of production method.

2. Property, plant and equipment:

	1973		1972	
	Cost	Accumulated depletion and depreciation	Cost	Accumulated depletion and depreciation
Developed oil and gas properties and equipment thereon	$2,144,203	295,821	1,669,591	185,328
Gas plant	973,620	123,221	912,615	74,540
Undeveloped oil, gas and mineral properties	625,871	—	174,638	—
	$3,743,694	419,042	2,756,844	259,868

The companies' policy is to capitalize all costs relative to the exploration for and the development of petroleum and natural gas whether productive or non-productive. Costs pertaining to producing properties are depleted on a unit of production method based on estimated reserves. Carrying costs on undeveloped properties are charged against earnings in the year incurred. The cost of non-producing properties, including development and exploration cost thereon, less any proceeds on disposal, are charged against earnings in the year of disposal, abandonment or surrender.

3. Investments:

Included in other investments are amounts representing the company's interest in two United Kingdom companies. These two companies are Enjay Holdings Ltd. of which the company owns 40% of the outstanding common shares at a cost of $5,302; and Sea Search Limited in which the company has a 3.9% interest at a cost of $398,535.

In order to retain this percentage interest in Sea Search Limited, the company is required to pay an additional $137,554 in August 1973. On June 28, 1973 the Company has subscribed for and been allotted 66,909 Class "A" (a new class of shares) of one pound sterling each. These shares were issued at 120 p. per share and amount in the aggregate to approximately £80,300 (approximately $193,500). Under the terms of payment £13,382 ($34,225) was paid in July, 1973 and £13,382 is due in June 1974. The balance of the purchase price (£53,536) is subject to call under certain conditions.

4. Long-term debt:

Although the bank loan is subject to call on demand, under the agreed terms of repayment approximately $75,000 will be repaid within the next twelve months. The loan is secured by an assignment of certain interests in developed properties and accounts receivable of a subsidiary company.

5. Capital Stock:

During the year the following changes were made in the capital stock of the company:

	Shares	Amount
Balance May 31, 1972	1,953,293	$2,376,025
Shares issued for shares of subsidiary company (Note 1)	383,328	1,149,985
Shares issued for cash	90,000	463,500
Shares issued as finders' fee	4,762	20,000
Balance, May 31, 1973	2,431,383	$4,009,510

In connection with obtaining funds for a drilling program, the company granted a warrant to purchase 50,000 shares of its capital stock, exercisable as follows:

$2.25 per share if exercised prior to June 23, 1974.
$2.50 per share if exercised prior to June 23, 1975.
$2.75 per share if exercised prior to June 23, 1976.

6. Contingent Liability:

The company has issued and deposited with the Government of Canada and certain foreign governments,

letters of credit to be held as security for the performance of work obligations in respect to exploratory rights. The aggregate of such letters of credit amounted to $87,856 at May 31, 1973. The company has assigned to a Canadian chartered bank $100,000 if its deposit receipts as security for these letters of credit.

7. Remuneration of Directors and Officers:

The aggregate direct remuneration paid to directors and senior officers during the year amounted to $54,000.

8. Income taxes:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation for tax purposes) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. For 1973 the companies do not intend to claim excess capital cost allowance but will claim the other specified deductions in an amount sufficient to eliminate taxable income, and expenditures remain to be carried forward and applied against future taxable income are as follows:

Dirlling, exploration and lease acquisition costs	$2,319,000
Undepreciated capital cost	$1,039,000

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes in the current and prior years would have been insignificant.

9. Loss per Share:

Loss per share is based on the weighted monthly average number of shares outstanding during the year.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiaries as of May 31, 1973 and the consolidated statements of earnings and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at May 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
July 25, 1973

Peyto Oils Ltd. and Subsidiaries

CONSOLIDATED BALANCE SHEET
November 30, 1973
(with comparative figures for 1972)
(unaudited)

ASSETS

	1973	1972
Current:		
Cash	$ 31,918	$ 24,048
Deposit receipts, including accrued interest	2,501,175	265,000
Accounts receivable	119,722	39,246
Current portion of notes receivable	—	5,000
Prepaid expenses and deposits	649	219
Total current assets	2,653,464	333,513
Notes receivable from directors, net of current portion	—	15,000
Property, plant and equipment less accumulated depletion and depreciation (1973 — $504,831)	3,436,017	2,618,961
Other assets:		
Other investments at cost	469,311	288,065
Refundable deposits	14,277	11,270
Incorporation costs	9,238	4,981
	492,826	304,316
	$6,582,307	$3,271,790

LIABILITIES

	1973	1972
Current:		
Accounts payable	$ 153,570	$ 126,234
Current portion of bank loan	75,000	100,000
Total current liabilities	228,570	226,234
Long term debit		
Bank loan, net of current	628,000	607,000
Minority interest in subsidiary company	151,750	163,953
Shareholders equity		
Capital stock		
Authorized: 6,000,000 shares without nominal or par value		
Issued: 2,781,383 shares (1972 — 1,953,293 shares)	6,109,510	2,376,025
Deficit	535,523	101,422
	5,573,987	2,274,603
	$6,582,307	$3,271,790

AR13

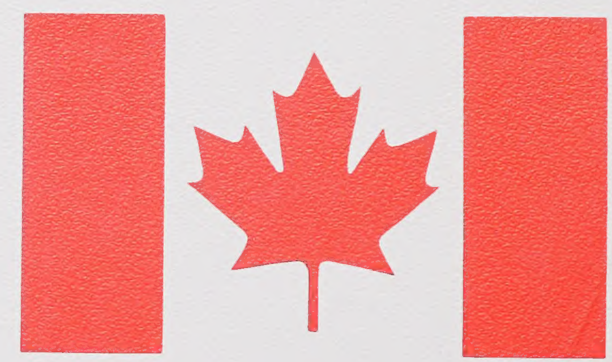
PEYTO OILS LTD.
335, 805 - 5th St. S.W.
Calgary, Alberta T2P 1W3

Toronto Globe & Mail,
140 King Street West,
TORONTO, Ontario.

CALGARY ALBERTA 30 I '74

Peyto Oils Limited
AND SUBSIDIARY COMPANIES

INTERIM REPORT
For Six Months Ended November 30, 1973



Dear Shareholder:

In line with recent humorous stories which begin by asking what the listener would like to hear first, the good news or the bad news — we also have both good and bad news for this report period.

The good news first: we sold 350,000 treasury shares to Francarep, a company associated with the Rothschild's group of companies of Paris, France, which netted the treasury $2.1 million bringing our working capital to $2,425,000. We drilled 6 successive oil wells in Saskatchewan in which we hold a 50% interest. During the period we participated in a total of 18 wells resulting in 8 oilwells, 2 gaswells and 8 dry holes. The 2 gaswells and 4 dry holes were drilled at no cost to your company. In addition 1 gaswell was completed by others on one of our mineral titles.

A very promising oil discovery in the North Sea appears to have been made some two miles from our block 3/7 in which we hold a 10% interest. Your company will possibly participate in two wells on block 3/7 this year, which will be drilled jointly with neighboring block holders.

The bad news is that the Canadian oil industry is rapidly becoming the victim of a political struggle between the Governments of the oil producing provinces and the Federal Government. The current energy crisis has caused rapidly rising prices for crude oil in those areas dependent in part on imported crude oil. In order to hold down the price of oil in Eastern Canada the Federal Government has imposed a price freeze on domestic oil and an export tax on oil exported from Canada. This tax has become extremely distasteful to the producing provinces since their returns from oil production are based on wellhead prices. To counteract this tax by Ottawa the Saskatchewan government has indirectly raised their take from the producers by artificially setting higher wellhead prices which are not realized by the producers. In the month of January the result of this manoeuvre will lower our realized price of crude from $3.27/barrel to approximately $2.84/barrel (this same crude now sells in the export market for ± $8 to $10 a barrel). The Alberta government also indirectly raised its royalties to the producers which has especially effected our Quirk Creek production which since July 1973 has become subject to an increase in royalties on natural gas of 33% and on liquids of 103%!

Continued and increasing government interference with the free enterprise system will adversely affect Canada's smaller independent oil companies by reducing their profits and reducing the availability of risk capital heretofore provided to them largely by U.S. investors.

To counteract these deteriorating conditions in Canada we have staked our first well in Montana and are planning a drilling program on our acreage spread in Colorado.

January 17, 1974.

W. Wolodarsky,
President.

Peyto Oils Ltd. and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

For the six months ended November 30, 1973

(with comparative figures for 1972)
(unaudited)

	1973	1972
REVENUE:		
Oil and gas	$ 205,416	$ 186,401
Royalties	5,160	971
Contract services	23,048	82,485
Interest earned	22,681	6,888
Other	2,431	—
	258,736	276,745
EXPENSES:		
Lease operating	71,688	95,180
General and administrative	78,698	51,900
Lease rentals on non-producing properties	28,695	858
Interest expense	31,115	22,776
Geological and seismic	19,385	—
	229,581	170,714
Cash flow from operations	29,155	106,031
Non-cash charges:		
Depletion and depreciation	85,790	81,919
Dry hole and abandonments	99,619	26,324
Loss on sale of property	2,600	—
	188,009	108,243
Loss before the following	158,854	2,212
Minority interest in loss of subsidiary	10,386	—
Net Loss	148,468	2,212
Deficit at beginning of year	387,055	99,210
Deficit at end of period	$ 535,523	$ 101,422

CONSOLIDATED STATEMENT OF SOURCE & APPLICATION OF FUNDS

	1973	1972
Source of Funds:		
Cash flow from operations	$ 29,155	$ 106,031
Decrease in notes receivable	—	5,000
Issue of capital stock	2,100,000	—
Sale of property	560	—
Total funds provided	2,129,715	111,031
Application of funds:		
Property, plant and equipment	299,933	230,228
Increase in other assets		
Investments	34,223	135,354
Other	1,027	—
Payment of bank loan	4,000	22,000
Total funds applied	339,183	387,582
Increase (decrease) in working capital	1,790,532	(276,551)
Working capital at beginning of year	634,362	383,830
Working capital at end of period	$2,424,894	$ 107,279